CITY OF CHICAGO
FY2006 PROPOSED BUDGET

Analysis and Recommendations

Prepared By
The Civic Federation
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EXECUTIVE SUMMARY

The City of Chicago proposes a FY2006 budget of $5.2 billion. The City faced a $114 million Corporate Fund deficit, which will be addressed through a combination of strategies including management efficiencies, spending reductions, savings from bond refinancing, natural revenue growth revenue and a 20 cent per pack cigarette tax increase.

The Civic Federation is pleased to announce our **support** for the City's FY2006 budget. We believe that the proposed budget takes a reasonable and balanced approach by using a combination of diverse fiscal strategies to pay for the City's priorities next year. Clearly, the improved economy and increased revenues have made a big contribution to this good news budget. However, we believe that this budget is the product of careful and prudent financial management over a period of several years.

We are particularly pleased that the budget this once again avoids any increase in property taxes. Because the City has maintained a conservative approach to property tax increases, its share of the average City property tax bill will have declined from 29% to less than 19% since 1988. We think that other units of local government, such as the Chicago Public Schools and City Colleges, should follow the Mayor's lead and refrain from pursuing a reflexive policy of increasing property taxes to the maximum amount allowed under law every year.

The Civic Federation offers the following **key findings** on the City of Chicago FY2006 budget:

- The budget will increase by 2.9% from the original FY2005 budget. This is a $149.8 million increase from $5.08 billion to $5.2 billion.
- The property tax levy is frozen for the third year at $713.5 million. 93.3% of the property tax levy will be reserved to pay for pensions and debt service.
- Revenue enhancements in the budget include $44.0 million in revenue growth generated as a result of the improving economy in Illinois and elimination of the prompt payment discount for water customers;[1] amnesty and parking payment plans that are expected to raise $7.5 million; and naming rights for the Skyway which will generate as much as $4 million for a 5 year period.
- The budget proposes a 20 cent per pack increase in the City's cigarette tax to 68 cents. The new composite rate within the City will rise to $3.05 per pack. This follows a 32 cent increase last year.
- Approximately $50.5 million of the total budget gap was eliminated with savings generated from spending reductions and the introduction of efficiencies. These include extension of a 1.5% cut in non-public safety spending which will generate $10 million in savings and $23 million in savings from debt refinancing.

[1] The prompt payment discount gives water customers a 2.5% discount if they pay their water bills within 21 days. Eliminating the discount will generate up to $6 million per year. Information provided by Budget Office.

The Civic Federation **supports** many elements of the City's FY2006 proposed budget:

- The budget holds the property tax levy constant for the third year in a row.
- The City of Chicago will eliminate 230 vacant administrative positions for a net savings of $3 million. This year, the overall number of positions budgeted will be stable, decreasing very slightly (9 FTEs) for non grant funded programs.
- The City continues to utilize a prudent and balanced financial management approach that includes selected spending cuts and the implementation of management efficiencies.
- Chicago's financial outlook has improved since last year. In August 2005, the rating agencies upgraded the City's bond ratings, a positive reversal of the situation from last year.
- While it must continue to be increased even further, the City has made a concerted effort to increase the size of its Corporate Fund balance. The FY2005 end of year balance carried over into FY2006 will be nearly $63 million.
- The transparency of the Budget documents continues to improve.

The Civic Federation has **concerns** about several financial issues related to the budget:

- We are very disappointed in the lack of transparency demonstrated by the City over time in divulging financial information about the costs of Millennium Park and how its operations are being financed.
- We are concerned about the proposed plan to finance Millennium operations with borrowing; we do not believe this is a sound fiscal policy.
- The funded ratios of all four City pension funds dropped again in FY2004. The Fire Fund sank to an anemic 42.3% funded ratio. The Police Fund's funded ratio tumbled to 55.9%. The City is not adequately funding these two pension funds given the level of benefits provided.

The Civic Federation has several **recommendations** to improve the City's financial management, including:

- We support the City's proposal to charge large nonprofits such as hospitals and universities for water usage as a good first step. But, we urge the City to go further and meter all nonprofits and all other users of Chicago water including residences, businesses and other governments. The City should also disclose the dollar amount of the subsidy taxpayers are providing to such non-paying users of City water on an annual basis.
- Millennium Park operations should be paid for with Corporate Fund resources, not borrowing, because operating the Park is a general operating expense of the City. This would require cutting spending for other programs.
- The City must implement pension funding reform to contain its mounting costs and failure to adequately fund the Police and Fire Funds. These reforms should include reducing benefit levels for new hires, fixing annuity increases for new hires at the lesser of CPI or 3%, requiring contribution increases for any benefit increases and requiring employer contributions to relate to funding levels rather than an arbitrary multiplier.
- The City should continue to improve its performance measurement system.
- The City should develop and implement a formal long-term financial planning process that would allow for input from the City Council and other key policy stakeholders, including the public.

OVERVIEW OF ANALYSIS

The Civic Federation is pleased to announce our **support** for the City of Chicago's $5.2 billion FY2006 budget. Based on our independent analysis, we believe that the proposed budget takes a reasonable and balanced approach, using a combination of management efficiencies, spending cuts, holding the line on personnel, revenue growth and a cigarette tax increase to pay for the City's priorities next year. Clearly, the improved economy and increased revenues have made a big contribution to this good news budget. However, we believe that this budget is the product of careful and prudent financial management over a period of several years.

We are particularly pleased that the budget this once again avoids any increase in property taxes. As a result of the City maintaining a conservative approach to property tax increases, the City's share of the average Chicago property tax bill will have declined from 29% to less than 19% since 1988. We believe that other units of local government, such as the Chicago Public Schools and City Colleges, should follow the Mayor's lead and refrain from pursuing a reflexive policy of increasing property taxes to the maximum amount allowed under law every year.

The full text of our analysis follows this summary and is also available on our web site at www.civicfed.org.

Issues The Civic Federation Supports

The Civic Federation **applauds** Mayor Daley and his financial team for their decision to refrain from raising regressive property taxes and to continue managing the City of Chicago's resources more efficiently through cost cutting efforts, the introduction of management efficiencies and stabilizing the size of the workforce.

No Property Tax Increase

The FY2006 City of Chicago budget contains no property tax increase for the third year in a row. The levy will be frozen at $713.5 million. The City's share of the average Chicago property tax bill has declined from 28.5% in 1998 to 18.9% in 2004.

Once again, we commend Mayor Daley for exercising fiscal restraint by not increasing property taxes. Unfortunately, other governments in the area such as the Chicago Public Schools and the City Colleges of Chicago have failed to follow his lead. Rather, they have persisted in pursuing an annual ritual of reflexively increasing property taxes to the maximum amount allowed instead of making efforts to balance their budgets with spending cuts and management efficiencies.

Management Efficiencies and Spending Cuts

The budget this year is balanced in part with a combination of selected spending cuts and the implementation of management efficiencies. These efforts are highlighted on pages 30-33 of the *Budget Overview and Revenue Estimates*. Some of the more significant efforts include:

- Extension of the 1.5% across the board spending cut for all non-public safety related departments ordered by the Mayor in July 2005. This action will save $10 million in FY2006.
  - Enhanced parking enforcement will yield $2.5 million. This includes automation of booting procedures that will allow 21 parking enforcement aides to focus on enforcement, rather than data gathering.
  - A health care audit will be conducted to ensure that only eligible employees and dependents receive benefits. The audit could save up to $1 million.
  - Additional red light cameras at 30 intersections throughout City will net $2 million in new revenues from traffic fines.
  - A new telecommunications contract will reduce service costs; fewer lines are needed now because of fewer staff as the workforce shrinks. This action will save $2 million on the contract.
  - 230 vacant administrative positions will be eliminated for a net savings of $3 million.

<u>Stabilization of Workforce Size</u>

The City of Chicago will eliminate 230 vacant administrative positions in the FY2006 budget for a net savings of $3 million. At the same time, some positions are being added in the Department of Human Resources to support that department's reorganization, the Office of Emergency Management and Communications and the Department of Streets and Sanitation. Overall, the number of non-grant funded positions will decrease by 9 positions to 35,872. When all positions are considered, the workforce will increase very slightly, by 0.1% or 50 full-time equivalent (FTE) positions. Between FY2002 and FY2006, the City's workforce has declined by 7.9%, or from 43,750 FTEs to 40,312 FTEs. The City's efforts to reduce its workforce over time and to stabilize headcount this year are prudent given the rising cost of personnel, which in FY2006 will consume fully 82.1% of all Corporate Fund appropriations. We commend the City for its efforts to stabilize the rate of growth in personnel costs.

<u>Increase in Bond Rating</u>

Chicago's financial outlook has improved since last year. In August 2005, the rating agencies upgraded the City's bond ratings. More specifically:

- Moody's raised its outlook to "positive" from "stable" and reaffirmed its previous A1 rating;
- Fitch raised rating to AA from AA-;
- Standard and Poor's raised its bond rating from AA- to A+.

The Moody's action is particularly significant because in August 2004, the rating agency changed its outlook on Chicago bonds from "neutral" to "negative." This meant that there was a strong possibility that the rating would be reduced in the next 12 to 18 months. Moody's subsequently upgraded its outlook to "neutral" as the City's financial situation improved in 2005.

The bond upgrade reflects the improvement in the regional and the national economies and the City's efforts to boost its Corporate Fund balance. We congratulate the City's financial management team for this significant achievement.

Increase in Reserve Fund

For many years, the Civic Federation has expressed concern on the City's low unreserved Corporate Fund balance, which dropped to just $13.0 million or 0.5% of Corporate Fund expenditures in FY2002. It is important for all governments to maintain a healthy fund balance to pay for emergencies or contingencies as they arise. The Government Finance Officers Association (GFOA) recommends that general purpose governments maintain a General Fund balance ratio of 5% to 15% of operating expenditures or revenues. The City still maintains a proportionally low fund balance, projecting a $62.6 million end of FY2005 balance that will be carried over into FY2006. However, the City had made an effort to increase the amount of fund balance from the low point of FY2002. This is a very positive sign and we strongly urge the City to continue moving further in this direction.

Continued Budget Format Improvements

The format of the City of Chicago budget continues to improve and we commend Budget and Management Director Volpe and his staff for making transparency of the Budget documents a high priority. We are especially impressed with the additional detail provided in the *Budget Overview and Revenue Estimates* volume this year, including:

- A "walk-up" that describes the sources of the current fiscal year budget deficit or surplus;
- A "walk-down" that clearly identifies the steps taken to eliminate the budget deficit if there is one; and
- More detail in the Personnel section, including information about staffing changes per department and the City's collective bargaining agreements.

Issues of Concern to the Civic Federation

The Civic Federation has **concerns** about several budgetary issues that could negatively impact the City's long-term fiscal health.

Current Millennium Park Funding Proposal

After the release of the FY2006 budget, the City proposed a financing plan to pay for the operating costs of Millennium Park.[2] Any Millennium Park funding plan will have an impact on this and future budgets, so we think it appropriate to comment here on the proposed plan.

The Civic Federation is on record as strongly **supporting Millennium Park** as an important amenity that adds a great deal to the aesthetics, culture and economy of Chicago. However, we are **very disappointed in the lack of transparency** demonstrated by the City over time in

[2] Gary Washburn. "City Finds Park Cash in its Bus Shelters," *Chicago Tribune*, November 17, 2005.

divulging financial information about the costs of the Park and how its operations are being financed.

While borrowing to pay for Millennium Park operations, the City has continued to expand other programs. Last year, the budget included $31 million from Skyway proceeds for the condo rebate for garbage removal, library automation, a program to end homelessness and the construction of senior satellite centers. This year, the budget proposes to spend nearly twenty million dollars from Skyway proceeds for a variety of neighborhood, human and business assistance programs. While many of these programs may be worthy, budgeting is about priorities: everything cannot be funded. A pre-existing capital commitment carrying with it substantial operating costs should have first claim on current receipts before other programs. Simply put, incurring new expenses when pre-existing obligations have not been covered is irresponsible.

If Millennium Park was always a top priority of the administration, then Park operations should have been considered from the beginning of the project. Operating costs should have always had a higher claim on City resources than other programs. Full consideration should have been paid to developing a long-term funding plan for the Park. And that plan should have been revealed when the Park was opened last year. That has not been the case. In fact, the City neither revealed the operating costs of the Park, how it is currently paying for those costs and how it proposes to pay for those costs in the future until very recently.

Pension Funding Ratios Decline Continues

For the third year, the funded ratios of all four City pension funds continued a steady decline. The Fire Fund in FY2004 reported a funded ratio of only 42.3%, tumbling from 60.2% in FY2001. The Police Fund's funded ratio dropped from 61.4% in FY2003 to 55.9% a year later. The Police Fund has declined from a 71.1% funded ratio in FY2000. The continued declines in the funded ratios of the Fire and Police Pension Funds are a cause for concern. They are **far below** levels considered financially healthy. The Municipal Fund dropped to a funded ratio of 72.0%, declining sharply from a 94.5% ratio in FY2000.

The ongoing declines in the funded ratios of the Fire and Police Pension Funds continue to be a serious cause for concern. At this time, the City cannot afford further increases in employee benefit levels that would continue to increase funding shortfalls. The City should consider reductions in the benefits of new employees to reduce costs in the long-term.

Civic Federation Recommendations

The Civic Federation offers several **recommendations** on ways to improve the City's financial management and fulfill its financial obligations:

Charge Nonprofit Organizations for Water

The Chicago Municipal Code permits the Commissioner of the Water Management Department to establish exemptions for:

> Such property as is owned and used in the immediate conduct of carrying out of the purposes of any charitable, religious or educational institution…if application be made for such exemptions to the commissioner in the form prescribed by him and if it shall appear to the satisfaction of said commissioner that such property is not used for gain or profit, or rented, conducted, operated or maintained for the purpose of producing revenue.[3]

The Commissioner also can exempt properties from water bill payments which the City Council has designated for exempt status.[4] While there are some variations and exceptions, in practice this has translated into nonprofit organizations such as universities, hospitals and churches being exempt from paying for water provided by the City.

The Civic Federation believes that the City must establish a uniform and uniformly enforced policy regarding water payment exemptions. We do not necessarily oppose consideration of a revenue or income threshold that might provide reduced payments or even exemption for smaller charitable organizations. But, we do believe that these should be **exceptions** to a general policy requiring payment, not the norm. Exemptions are not an entitlement; they are a privilege.

In sum, the Civic Federation finds no sound policy reason to exempt nonprofits from paying their share of the costs of providing a limited resource such as water. This is particularly true of those entities like hospitals and universities that operate much more like a business than a storefront church. Paying customers are providing a large subsidy to those who do not pay. In addition to revenue foregone, wholesale exemptions for large water users encourage waste and over consumption and discourage conservation. Lake Michigan is not a limitless resource.

The City has floated the idea of charging large nonprofits such as hospitals and universities for water usage that would exceed $50,000 in value.[5] This is a good start and we support this measure. But, we urge the City to go further. Currently, only 2,918 of the 3,558 nonprofit accounts are metered.[6] We believe that all nonprofits (as well as all residences and businesses) should be metered and that the dollar amount of the subsidy taxpayers are providing to nonprofits should be publicly disclosed on an annual basis.

Fund Millennium Park out of Current Operations, not Borrowing

The Civic Federation believes that Millennium Park operations should be paid for with Corporate Fund resources, not borrowing, because operating the Park is a general operating expense of the City. This would require cutting spending for other programs, something we feel

[3] Chicago Municipal Code Chapter 11-12-540.
[4] Ibid.
[5] Fran Spielman, "Daley Wants to End Nonprofits' Free Water Deal," *Chicago Sun-Times*, November 3, 2005.
[6] Information provided by Chicago Office of Budget and Management, November 22, 2005.

in feasible in light of the City's use of a portion of Skyway proceeds to fund several new programs, including some that are recurring such as the Condo Rebate program. In our view, borrowing funds to pay for current operations is not a sound fiscal policy. Therefore, we **oppose** the City's newest proposal to fund Park operations, which involves a borrowing program for many years to come.

<u>Implement Pension Benefit Reform</u>

For many years, the Civic Federation has commented on the funding status of the Chicago pension funds. We have repeatedly urged the City to take action to improve the financial health of the Police and Fire Funds. Unfortunately, little has been done and the funded ratios of these two funds have continued to decline as unfunded liabilities have mushroomed.

Over the past year, the State of Illinois has adopted several key reforms designed to help the State control mounting employee retirement costs. The Civic Federation strongly supported these reforms and believes that the time has come to also apply some of these reforms to local government benefit plans, including those provided to City of Chicago employees. This year, we offer specific recommendations designed to improve the long-term financial health of the funds.

Establish a Two-Tiered System

Although the pension benefits for current public employees and retirees are guaranteed by the Illinois Constitution, benefit levels can be reduced for new employees. Reducing benefits for new employees would mean the creation of two-tiered benefit systems where existing and new employees receive different retirement benefits. Given the rising cost of pension benefits, this is a reasonable approach that the City should undertake.

Annuity Increases for New Hires Should be Fixed at the Lesser of 3% or CPI

Currently, Police and Fire pension fund beneficiaries receive 3% annual cost of living increases; this rate can and does exceed the rate of inflation. To control costs, annual annuity increases for new hires should be fixed at the projected Consumer Price Index or 3%, whichever is less.

Any Benefit Increases Should Require Contribution Increases

Many benefit enhancements are added to public pensions without accompanying contribution increases. Public Act 94-0004 requires that every new benefit increase made to one of the 5 state retirement systems must identify and provide for additional funding to fund the resulting annual accrued cost of the increase. It also requires that any benefit increase expire after 5 years, subject to renewal. We support extending this reasonable control on benefit increases to the City's pension funds.

Require Employer Contributions to Relate to Funding Levels

City of Chicago government employer contributions are determined by multipliers per each fund that are not tied to the fund's funded ratio. For example, the Chicago Police Fund multiplier is

2.0 times the total employee contribution made two years prior. Employer contributions should be tied to funded ratios, such that additional contributions are required when the ratio drops below a given level.

Pursue Joint Purchasing of Health Insurance

The City of Chicago recently joined with six other local governments for the joint purchase of prescription drugs. This action saved Chicago approximately $7.5 million in FY2004.[7] The Civic Federation urges the City to take the next step and work with other major local governments to consolidate health insurance purchasing. The potential for substantial savings that can be achieved from an insurance pool will be extremely beneficial to Chicago's future financial situation. A recent Civic Federation study found that forming such an agreement consisting of the employees of seven major local governments including the City of Chicago could yield projected savings of $40.1 million for all the governments in the first year or $222 million over a 5-year period.[8]

Expand Alternative Service Delivery Efforts

The Civic Federation strongly urges the Mayor to move forward and continue to consider evaluate candidates for alternative service delivery (ASD). These ASD efforts can take the form of outsourcing or managed competition. A significant target for City privatization is garbage removal, given the number of viable, cost-effective private contractors available. Other potential candidates include customer service centers, fleet management, 311 calls (non-emergency services), building management, payroll processing and accounting. Once again, we caution that privatization is not a panacea for the City's financial problems. It can be beneficial only if there is a marketplace of competitive, qualified vendors and strong, sustained management oversight to ensure that the promised benefits are actually delivered. But it is an important tool that can be used to reduce costs and improve efficiency.

Continue to Improve Performance Measurement System

We noted last year that the *Program and Budget Summary* has greatly improved performance reporting by including service delivery targets for certain programs in each department, alongside four years of performance data. This permits City managers and citizens alike to assess success in meeting department service delivery goals. We urge the City to take the next step toward performance management by developing and implementing specific efficiency, effectiveness and service quality performance measures for City programs.

[7] Information provided by the Office of Budget and Management, November 28, 2005.
[8] The Civic Federation. *Feasibility Study of Consolidated Purchasing: Chicago Public Employers*. A Study Conducted by the Segal Company. February 23, 2001.

Implement a Formal Long-Term Financial Planning Process

The City of Chicago currently employs many of the techniques of a long-term financial planning process internally, including the projection of multi-year revenue trends and modeling of various revenue and expenditure options. However, the City does not develop a formal plan that is shared with and/or reviewed by key policymakers and stakeholders. The Civic Federation recommends that the City of Chicago develop and implement a formal long-term financial planning process to be reviewed not just internally, but to allow for input from the City Council and other key policy stakeholders, including the public.

ACKNOWLEDGEMENTS

The Civic Federation would like to express appreciation to Office of Budget and Management (OBM) Director Paul Volpe, Managing Deputy Budget Director Russ Carlson, Assistant Budget Director Craig Lesner and the OBM Department staff for their efforts in preparing the FY2006 budget. We also appreciate their willingness to provide us with a briefing and answer many of our budget questions.

FY2006 BUDGET HIGHLIGHTS

The City proposes a total FY2006 budget of $5.2 billion. This is a 2.9% increase from the FY2005 appropriation of $5.0 billion. The Corporate Fund budget proposal is $2.9 billion, a 5.7% or $158 million increase over the FY2005 budget of $2.7 billion. The Corporate Fund represents 56.3% of the budget.

Cost Drivers of the $114 Million Budget Deficit

The City initially projected a $94 million deficit in July 2005 in the release if its Preliminary Budget Estimates. [9] That budget gap, however, grew to $114 million because of rapid increases in fuel costs in the aftermath of Hurricane Katrina and other issues. The biggest source of the deficit was $109.0 million in employee wage increases. Other cost drivers included a $33.0 million increase in the Chicago Public Library subsidy[10] and $39.0 million in additional contractual non-personnel costs. The size of the budget gap was reduced by $67.0 million because of better than anticipated revenue growth in the last part of FY2005.

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[9] Detailed information about the budget gap and how it was closed can be found on p. 8 on the *FY2006 City of Chicago Budget Overview and Revenue Estimates*.

[10] The Chicago Public Library no longer receives property tax dollars for debt service and equipment purchases. As a larger share of the City's levy is devoted to pensions and municipal debt service, the City has shifted the funding for these Library costs to the Corporate Fund.

"WALK UP" OF THE BUDGET DEFICIT	
	Amount (In Millions)
Wage Increases	$109.0
Additional Contractual Costs	$39.0
Increased Library Subsidy	$33.0
Less Increased Revenue Growth	-$67.0
Deficit Total	**$114.0**

Gap Closing Measures in the FY2006 Budget

The budget deficit was closed by means of $63.5 million in revenue enhancements and $50.5 million in savings from spending cuts and management efficiencies.

The FY2006 budget's revenue enhancements include $44.0 million in revenue growth generated as a result of the improving economy in Illinois and elimination of the prompt payment discount for water customers;[11] amnesty and parking payment plans that are expected to raise $7.5 million; and naming rights for the Skyway which will generate as much as $4 million for a 5 year period.

The budget contains one significant tax increase in FY2006, a 20 cent per pack hike in the City's cigarette tax. The City's cigarette tax rate will rise to 68 cents per pack, pushing the new composite rate within the City to $3.05 per pack. The Budget Office's fiscal projections include a projection of a 3.7% decrease in consumption. This cigarette tax increase follows a 32 cent increase last year and Cook County's recent $1.00 per pack increase.

Approximately $50.5 million of the total budget gap was eliminated with savings generated from spending reductions and the introduction of efficiencies. These savings include:

- $23.0 million in present value savings from refinancing outstanding sales tax bonds.
- The continuation of a 1.5% across the board cut in non-public safety agencies that will save an estimated $10.0 million;
- The elimination of 230 vacant positions, which will save a net amount of $3.0 million (while these positions were eliminated, other direct service positions have been filled in other areas of the budget);
- A variety of management efficiencies that will save $24.5 million. These include a health care audit to ensure that only eligible employees and dependents receive benefits, which will save $1 million; additional red light cameras at 30 intersections throughout City that will net $2 million in new revenues; enhanced parking enforcement which will yield $2.5 million;

[11] The prompt payment discount gives water customers a 2.5% discount if they pay their water bills within 21 days. Eliminating the discount will generate up to $6 million per year. Information provided by Budget Office.

and a new telecommunications contract that will reduce service costs be reducing the number of lines needed as staff is reduced, a measure that will save $2 million.[12]

GAP CLOSING MEASURES	
MEASURES	**Amount (In Millions)**
Revenue Enhancements	
Additional Revenue Growth	$44.0
Cigarette Tax Increase	$9.0
Amnesty & Parking Payment Plans	$7.5
Skyway Naming Rights	$3.0
Subtotal Revenue Enhancements	**$63.5**
Savings from Spending Reductions & Efficiencies	
Restructuring Long-Term Debt	$23.0
Various Management Efficiencies	$14.5
1.5% cut in non-public safety spending	$10.0
Eliminate Vacancies	$3.0
Subtotal Spending Reductions & Efficiencies	**$50.5**
GRAND TOTAL	**$114.0**

Skyway Revenues

The FY2006 budget contains approximately $95 million in proceeds from the Skyway sale last year. These funds are a portion of the $325 million, 5-year annuity the City has established with the proceeds. Nearly $20 million dollars will be allocated this fiscal year for a variety of neighborhood, human and business assistance programs. Seventy five million dollars will be used for Corporate Fund expenditures. An additional $5 million will be used for low income heating assistance. This money is derived from interest earnings on from the Skyway proceeds.[13]

REVENUES

This section of the analysis provides an overview of All Fund and Corporate Fund revenue trends and property tax levy trends.

All Fund Revenue Trends

City of Chicago revenues from all sources are projected to increase 2.9% in FY2006. Some of the highlights include:

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[12] Details about the various management efficiencies can be found in the *FY2006 Budget Overview and Revenue Estimates*, pp. 30-33.
[13] Information provided by Chicago Office of Budget and Management, November 22, 2005.

- Aviation revenues from O'Hare and Midway Airports, the single largest revenue source in the budget, are expected to increase from $809.1 million to $841.9 million.
- Sales tax revenues will rise by 9.2% or from $471.7 million to $515.1 million. Approximately $6.7 million of this increase, however, is due to dollars saved from the refinancing of Sales Tax bonds. Therefore, it more accurate to state that the actual revenue increase (less the refinancing) is expected to be 7.6%, an increase from $471.7 million to $507.4 million.[14]
- Income tax receipts, including revenues from the Personal Property Replacement Tax which is a corporate income tax, will rise substantially by 25.6%. This large increase is due to an increase in business activity and income in Illinois as the economy improves.
- Transaction taxes on the transfer of real estate, the lease or rental of personal property and the short-term lease of motor vehicles will increase by 17.1% in FY2006 to $315.5 million. Approximately $228.0 million of that amount or 72% of the total will come from the real estate transfer tax.

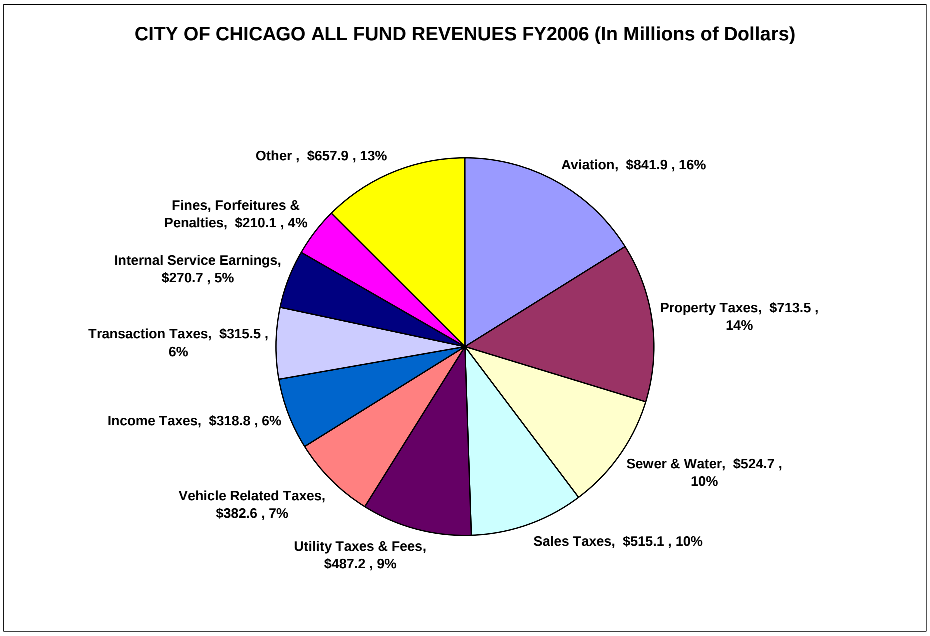
CITY OF CHICAGO REVENUES: ALL FUNDS: FY2005 & FY2006
(In Milions of Dollars)

Revenue	FY2005	FY2006	$ CHG	% CHG
Aviation	$ 809.1	$ 841.9	$ 32.8	4.1%
Property Taxes	$ 713.5	$ 713.5	$ -	0.0%
Sewer & Water	$ 526.4	$ 524.7	$ (1.7)	-0.3%
Sales Taxes	$ 471.7	$ 515.1	$ 43.4	9.2%
Utility Taxes & Fees	$ 500.4	$ 487.2	$ (13.2)	-2.6%
Vehicle, Transportation & Motor Fuel Taxes	$ 394.0	$ 382.6	$ (11.4)	-2.9%
Income Taxes/PPRT	$ 253.9	$ 318.8	$ 64.9	25.6%
Transaction Taxes	$ 269.5	$ 315.5	$ 46.0	17.1%
Internal Service Earnings	$ 276.0	$ 270.7	$ (5.3)	-1.9%
Fines, Forfeitures & Penalties	$ 195.0	$ 210.1	$ 15.1	7.7%
Other Resources	$ 208.9	$ 180.6	$ (28.3)	-13.5%
Proceeds & Transfers In	$ 167.9	$ 153.5	$ (14.4)	-8.6%
Recreation Taxes	$ 110.5	$ 125.7	$ 15.2	13.8%
Licenses & Permits	$ 107.9	$ 112.4	$ 4.5	4.2%
Charges for Services	$ 83.7	$ 85.7	$ 2.0	2.4%
TOTAL	**$ 5,088.4**	**$ 5,238.0**	**$ 149.6**	**2.9%**

Sources: City of Chicago FY2005 & FY2006 Budget Overview & Revenue Estimates.

The following exhibit shows the distribution of revenues by source in FY2006. Aviation revenues will constitute 16% of all revenues, followed by property taxes at 14%. Sewer and water fees and taxes and sales tax revenues each will provide approximately 10% of all fund revenues for the City in FY2006.

[14] Information provided by Chicago Office of Budget and Management, November 22, 2005.



Over the 5-year period between FY2002 and FY2006, all fund resources will have increased by 13.8%. Of the biggest revenue sources, aviation revenues are expected to increase by 29.5%, sales taxes by 12.9%, property taxes will increase only slightly by 1.8% and income taxes will rise by 14.3%.

CITY OF CHICAGO REVENUES: ALL FUNDS: FY2002 & FY2006
(In Milions of Dollars)

Revenue	FY2002	FY2006	$ CHG	% CHG
Aviation	$ 650.2	$ 841.9	191.7	29.5%
Property Taxes	$ 700.6	$ 713.5	12.9	1.8%
Sewer & Water	$ 537.5	$ 524.7	(12.8)	-2.4%
Sales Taxes	$ 456.3	$ 515.1	58.8	12.9%
Utility Taxes & Fees	$ 486.9	$ 487.2	0.3	0.1%
Vehicle, Transportation & Motor Fuel Taxes	$ 389.2	$ 382.6	(6.6)	-1.7%
Income Taxes/PPRT	$ 278.9	$ 318.8	39.9	14.3%
Transaction Taxes	$ 202.7	$ 315.5	112.8	55.6%
Internal Service Earnings	$ 291.6	$ 270.7	(20.9)	-7.2%
Fines, Forfeitures & Penalties	$ 146.9	$ 210.1	63.2	43.0%
Other Resources	$ 98.8	$ 180.6	81.8	82.8%
Proceeds & Transfers In	$ 129.1	$ 153.5	24.4	18.9%
Recreation Taxes	$ 92.5	$ 125.7	33.2	35.9%
Licenses & Permits	$ 73.7	$ 112.4	38.7	52.5%
Charges for Services	$ 67.2	$ 85.7	18.5	27.5%
TOTAL	**$ 4,602.1**	**$ 5,238.0**	**635.9**	**13.8%**

Sources: City of Chicago FY2002 Revenue Estimates & FY2006 Budget Overview & Revenue Estimates.

Corporate Fund Revenue Trends

The Corporate Fund is the City's general fund. It supports a wide variety of services including public safety, public health, sanitation, and transportation. As the next exhibit shows, the City projects a 5.5%, $151.7 million increase in Corporate Fund revenues for FY2006. The Corporate Fund no longer receives any property tax dollars.

City of Chicago tax revenues are projected to rise by 9.3%, from $1.8 billion to nearly $2.0 billion. Sales and Use Tax revenue, which includes the City's share of sales taxes collected by the State as well as its own home rule sales tax, is expected to increase by 11.3%. This figure includes debt service reduction for the refinancing of Sales Tax Revenue Bonds. Utility taxes and franchise fees will decrease by 2.6%, or approximately $13.2 million. Income tax receipts, which include the personal property replacement tax levied on corporations and utilities, is projected to rise by 25.6% to $318.8 million. The dramatic increase reflects the economic recovery in Illinois.

Non-tax Corporate Fund revenues will increase only slightly, by $5.1 million or 0.7%. Most of these revenues, or 77.7% of the total, derive from the three categories of Internal Service Earnings, Fines and Forfeitures, and Licenses and Permits.

The category of Proceeds and Transfers In will decline by 12.2% in FY2006, falling from $167.9 million to $147.5 million. This category includes tax revenue in the form of proceeds from the balance of property taxes after payments for debt service, pension, and library obligations. It also includes non-tax revenue derived from transfers of nonrecurring revenue sources. In FY2006, Transfers In will include $25.0 million in interest from the Skyway Investment Fund, $50.0 million from the proceeds of the Skyway Mid-Term Annuity Fund, and $15.0 million from the Skyway Neighborhood and Human Infrastructure Fund.[15]

[15] *FY2006 City of Chicago Budget Overview and Revenue Estimates*, 57.

CHICAGO CORPORATE FUND REVENUES: FY2005 & FY2006 (In Millions of Dollars)				
Tax Revenue	**FY2005**	**FY2006 Prop**	**% CHG**	**$ CHG**
Utility Tax & Franchise Fees	$ 500.4	$ 487.2	-2.6%	$ (13.2)
Sales & Use Taxes	$ 445.4	$ 495.7	11.3%	$ 50.3
Income Taxes (Incl. PPRT)	$ 253.9	$ 318.8	25.6%	$ 64.9
Transaction Taxes	$ 269.5	$ 315.5	17.1%	$ 46.0
Transportation Taxes	$ 152.6	$ 148.3	-2.8%	$ (4.3)
Recreation Taxes	$ 110.5	$ 127.7	15.6%	$ 17.2
Business Taxes	$ 68.3	$ 74.4	8.9%	$ 6.1
Municipal Auto Rental Tax	$ 3.4	$ 3.4	0.0%	$ -
Total Tax Revenue	**$ 1,804.0**	**$ 1,971.0**	**9.3%**	**$ 167.0**
Non-Tax Revenue				
Internal Service Earnings	$ 276.0	$ 270.7	-1.9%	$ (5.3)
Fines & Forfeitures	$ 195.0	$ 216.1	10.8%	$ 21.1
Licenses & Permits	$ 107.9	$ 112.4	4.2%	$ 4.5
Current Service Charges	$ 83.7	$ 85.7	2.4%	$ 2.0
Municipal Utilities	$ 25.2	$ 23.2	-7.9%	$ (2.0)
Leases, Rentals & Sales	$ 40.5	$ 36.1	36.1%	$ (4.4)
Reimbursement,Interest,Other	$ 37.5	$ 26.8	-28.5%	$ (10.7)
Total Non-Tax Revenue	**$ 765.8**	**$ 770.9**	**0.7%**	**$ 5.1**
Proceeds & Transfers In	**$ 167.9**	**$ 147.5**	**-12.2%**	**$ (20.4)**
TOTAL CORPORATE REVENUE	**$ 2,737.7**	**$ 2,889.4**	**5.5%**	**$ 151.7**

Source: FY2005 City of Chicago Budget Overview and Revenue Estimates, p. 47, and FY2006 City of Chicago Budget Overview and Revenue Estimates, p. 40.

The next exhibit presents a 5-year trend for Corporate Fund revenues. Between FY2002 and FY2006, all Corporate Fund revenues increased by 15.8%. This represents a $394.8 million increase from $2.5 billion to $2.9 billion. During this period, tax revenues rose by 20.5%, non-tax revenues increased by 5.6%, and Proceeds and Transfers In increased by 14.3%.

CHICAGO CORPORATE FUND REVENUES: FY2002 and FY2006 (In Millions of Dollars)				
Tax Revenue	**FY2002**	**FY2006 Prop**	**% CHG**	**$ CHG**
Utility Tax & Franchise Fees	$ 486.9	$ 487.2	0.1%	$ 0.3
Sales Taxes	$ 429.6	$ 495.7	15.4%	$ 66.1
Income Taxes (Incl. PPRT)	$ 210.5	$ 318.8	51.4%	$ 108.3
Transaction Taxes	$ 202.7	$ 315.5	55.6%	$ 112.8
Transportation Taxes	$ 146.6	$ 148.3	1.2%	$ 1.7
Recreation Taxes	$ 92.5	$ 127.7	38.1%	$ 35.2
Business Taxes	$ 63.6	$ 74.4	17.0%	$ 10.8
Municipal Auto Rental Tax*	$ 3.1	$ 3.4	9.7%	$ 0.3
Total Tax Revenue	**$ 1,635.5**	**$ 1,971.0**	**20.5%**	**$ 335.5**
Non-Tax Revenue				
Internal Service Earnings	$ 291.6	$ 270.7	-7.2%	$ (20.9)
Fines & Forfeitures	$ 146.9	$ 216.1	47.1%	$ 69.2
Licenses & Permits	$ 73.7	$ 112.4	52.5%	$ 38.7
Current Service Charges	$ 67.2	$ 85.7	27.5%	$ 18.5
Municipal Utilities	$ 20.1	$ 23.2	15.4%	$ 3.1
Leases, Rentals & Sales	$ 39.3	$ 36.1	-8.1%	$ (3.2)
Reimbursement,Interest,Other	$ 91.2	$ 26.8	-70.6%	$ (64.4)
Total Non-Tax Revenue	**$ 730.0**	**$ 770.9**	**5.6%**	**$ 40.9**
Proceeds & Transfers In	**$ 129.1**	**$ 147.5**	**14.3%**	**$ 18.4**
TOTAL CORPORATE REVENUE	**$ 2,494.6**	**$ 2,889.4**	**15.8%**	**$ 394.8**

* In the FY2002 budget, the Municipal Auto Rental Tax was included as Non-Tax Revenue. In this chart, it has been separated and included as Tax Revenue for comparison with the FY2006 budget figures.

Source: FY2002 City of Chicago Revenue Estimates, p. 3, and FY2006 City of Chicago Budget Overview and Revenue Estimates, p. 40.

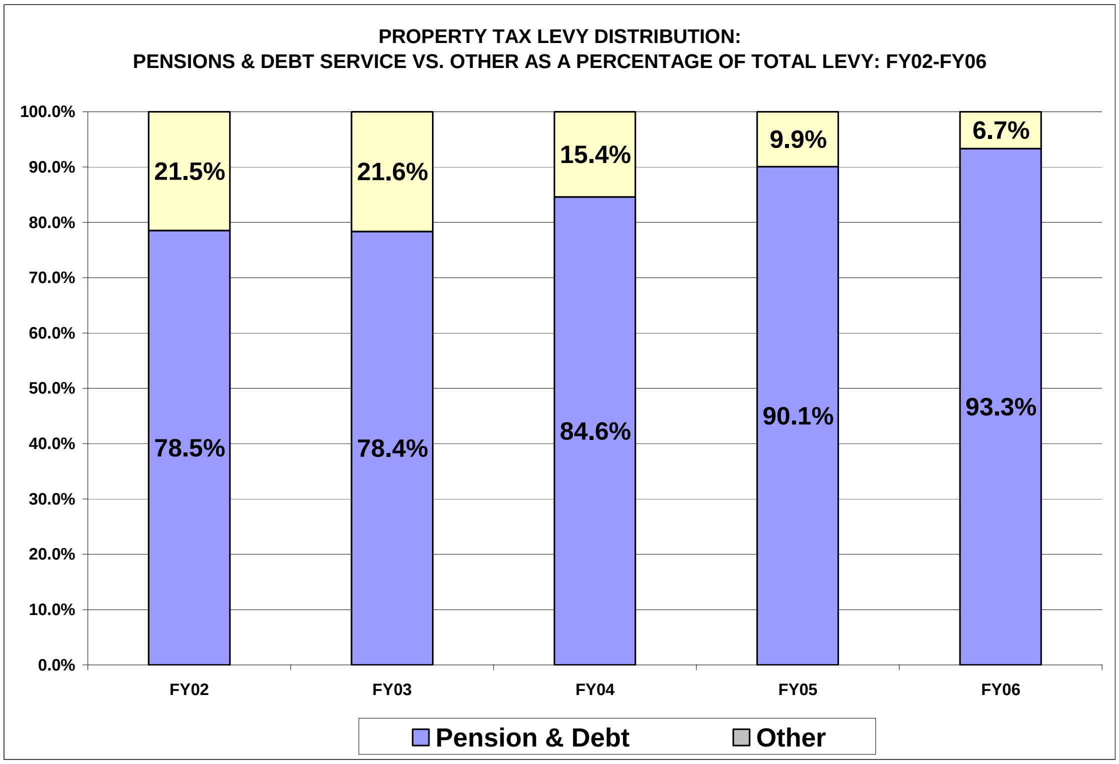
Property Tax Levy

The City's property tax levy will be frozen for the third year in a row in FY2006 at $713.5 million. Property tax revenues are distributed primarily to three major programs: pensions, debt service and libraries.

In tax year 2006, 93.3% of the levy will be reserved for pensions and debt service. The City's four employee retirement systems will receive the largest share of levy proceeds, 48.0% of the total or $342.3 million. Approximately 45.4% of the levy or $323.7 million will be earmarked for debt service. The share of the levy earmarked for libraries will be reduced to $34.8 million. This is a 53.4% reduction in the library's share of the levy since FY2002. Correspondingly, the library system's total share of the levy will drop from 10.6% of the total levy to 4.9%. The Library no longer receives property tax dollars for debt service and equipment purchases; as a larger share of the City levy is devoted to pensions and City debt service, the City has shifted funding for these Library costs to the General Fund. A total of $39.0 million for these costs as well as a portion of operating costs will be appropriated in FY2006.

Approximately 1.8% of the tax year 2006 levy or $12.7 million will be utilized for City Relief, which is used to reimburse the State of Illinois for certain public aid programs. City Relief will be phased out by 2007 as a result of General Assembly action.

During the 5-year period between tax year 2002 and 2006, the percentage of the levy earmarked for pensions and debt service has risen from 78.5% to 93.3%. Pensions in 2002 consumed 41.9% of the levy; this amount will rise to 48.0% five years later. Levy funds earmarked for debt service will increase from 36.6% to 45.4%.



RESERVE FUNDS

Between FY2000 and FY2004, unreserved, undesignated Corporate Fund balances declined by 47.6%, or from $80.6 million to $42.2 million.[16] In those same years, the unreserved fund balance in the Corporate Fund as a percentage of Corporate Fund operating expenditures fell from 3.4% to 1.6%. These figures are far below the amount recommended by the Government Finance Officers Association (GFOA). GFOA recommends that general purpose governments establish a general fund balance of 5 to 15 percent of regular general fund operating revenues or expenditures.[17] A Corporate Fund reserve of 5% of Corporate Fund expenditures would require approximately $128.3 million over $86.1 million more than what the City has proposed.

[16] See City of Chicago *Comprehensive Annual Financial Reports*, FY2000-FY2004.
[17] Government Finance Officers Association Recommended Practice. "Appropriate Level of Unreserved Fund Balance in the General Fund" (Adopted 2002).

While the fund balance ratio remained low between FY2000 and FY2004, it did increase substantially between FY2003 and FY2004, rising from $19.4 million to $42.2 million. In the FY2006 Budget, the City projects a FY2005 year end Corporate Fund balance of $62.6 million that will be carried over into the new fiscal year.[18] This trend of increasing the Corporate Fund balance is a positive sign which the Civic Federation hopes will continue until the City finally establishes a reasonable contingency fund.

CITY OF CHICAGO UNRESERVED, UNDESIGNATED CORPORATE FUND BALANCE RATIO (FY00-FY04)			
	Unreserved, Undesignated Corporate Fund Balance	Operating Expenditures	Ratio
FY2000	$ 80,653,000	$ 2,380,310,000	3.4%
FY2001	$ 33,241,000	$ 2,440,426,000	1.4%
FY2002	$ 13,014,000	$ 2,527,642,000	0.5%
FY2003	$ 19,458,000	$ 2,661,102,000	0.7%
FY2004	$ 42,246,000	$ 2,567,658,000	1.6%

Sources: City of Chicago Comprehensive Annual Financial Reports, various years.

APPROPRIATIONS

The FY2006 City of Chicago budget proposes a net appropriation of over $5.2 billion. This is an increase of 2.9% or approximately $149.9 million from the previous fiscal year. Personal Services appropriations are projected to rise by 4.7% due to increases in salaries and benefits, even as the number of positions is held relatively constant.

CITY OF CHICAGO APPROPRIATIONS BY OBJECT: FY2005 & FY2006				
Object	**FY2005**	**FY2006**	**$ CHG**	**% CHG**
Personal Services	$ 2,821,034,235	$ 2,953,315,959	$ 132,281,724	4.7%
Contractual Services	$ 649,315,515	$ 673,570,052	$ 24,254,537	3.7%
Travel	$ 3,059,216	$ 4,179,052	$ 1,119,836	36.6%
Commodities	$ 101,328,955	$ 112,602,591	$ 11,273,636	11.1%
Equipment	$ 9,417,748	$ 8,796,744	$ (621,004)	-6.6%
Permanent Improvements	$ 3,000,000	$ 2,000,000	$ (1,000,000)	-33.3%
Specific Items/Contingencies	$ 1,829,766,331	$ 1,797,101,664	$ (32,664,667)	-1.8%
Subtotal	**$ 5,416,922,000**	**$ 5,551,566,062**	**$ 134,644,062**	**2.5%**
Less Internal Transfers	$ 262,500,000	$ 268,215,888	$ 5,715,888	2.2%
Less Proceeds of Debt	$ 66,013,000	$ 45,079,000	$ (20,934,000)	-31.7%
Grand Total	**$ 5,088,409,000**	**$ 5,238,271,174**	**$ 149,862,174**	**2.9%**

Source: FY2005 City of Chicago Budget Recommendations, p. x, and FY2006 City of Chicago Budget Recommendations, p. ix.

Over the five-year period from FY2002 to FY2006, net appropriations have risen by 13.8%, or approximately $636.2 million. Personal Services appropriations have increased by roughly 13.3% over the five-year span from FY2002 to FY2006.

[18] *FY2006 City of Chicago Budget Overview and Revenue Estimates*, p. 40.

CITY OF CHICAGO APPROPRIATIONS BY OBJECT: FY2002 vs. FY2006				
Object	**FY2002**	**FY2006**	**$ CHG**	**% CHG**
Personal Services	$ 2,606,593,095	$ 2,953,315,959	$ 346,722,864	13.3%
Contractual Services	$ 577,673,272	$ 673,570,052	$ 95,896,780	16.6%
Travel	$ 3,752,287	$ 4,179,052	$ 426,765	11.4%
Commodities	$ 108,602,746	$ 112,602,591	$ 3,999,845	3.7%
Equipment	$ 10,542,582	$ 8,796,744	$ (1,745,838)	-16.6%
Permanent Improvements	$ 6,051,117	$ 2,000,000	$ (4,051,117)	-66.9%
Specific Items/Contingencies	$ 1,687,158,901	$ 1,797,101,664	$ 109,942,763	6.5%
Subtotal	**$ 5,000,374,000**	**$ 5,551,566,062**	**$ 551,192,062**	**11.0%**
Less Internal Transfers	$ 255,835,000	$ 268,215,888	$ 12,380,888	4.8%
Less Proceeds of Debt	$ 142,514,000	$ 45,079,000	$ (97,435,000)	-68.4%
Grand Total	**$ 4,602,025,000**	**$ 5,238,271,174**	**$ 636,246,174**	**13.8%**

Source: FY2002 City of Chicago Budget Recommendations, p. x, and FY2006 City of Chicago Budget Recommendations, p. ix.

Appropriations by Fund

The FY2006 budget projects that the largest increase in expenditures by fund will occur in the City's Corporate Fund, which accounts for the general operations of City government. Appropriations for the Corporate Fund will increase to nearly $3.0 billion, or 5.7% over the previous fiscal year. The largest decrease, or 7.5%, is projected to be in appropriations for the City's Debt Service Funds. Pension Funds appropriations will decrease slightly by 2.5%.

CITY OF CHICAGO APPROPRIATIONS: FY2005 & FY2006 (In Millions of Dollars)			
	FY2005	**FY2006 Rec**	**% Change**
Corporate Fund	$ 2,790.1	$ 2,950.0	5.7%
Special Revenue Fund	$ 406.1	$ 395.5	-2.6%
Pension Funds	$ 408.2	$ 398.0	-2.5%
Debt Service Fund	$ 477.6	$ 441.6	-7.5%
Enterprise Fund	$ 1,335.5	$ 1,366.5	2.3%
Total Resources	**$ 5,417.5**	**$ 5,551.6**	**2.5%**
Less Proceeds of Debt	$ (66.1)	$ (45.1)	-31.8%
Less Internal Transfer	$ (262.5)	$ (268.2)	2.2%
NET APPROPRIATION	**$ 5,088.9**	**$ 5,238.3**	**2.9%**

Source: FY2005 City of Chicago Budget Overview and Revenue Estimates, p. 45, and FY2006 City of Chicago Budget Overview and Revenue Estimates, p. 37.

Net appropriations are projected to rise by approximately 13.8% in the 5-year period since FY2002. The largest increase, or 16.7%, is projected to be in appropriations for the City's Corporate Fund. Pension Funds expenditures are expected to rise by 16.5%, from approximately $341.6 million to $398.0 million. Appropriations for Debt Service Funds are expected to decrease the most, by 12.0%.

CITY OF CHICAGO APPROPRIATIONS: FY2002 & FY2006 (In Millions of Dollars)			
	FY2002	FY2006 Rec	% Change
Corporate Fund	$ 2,527.5	$ 2,950.0	16.7%
Special Revenue Fund	$ 397.2	$ 395.5	-0.4%
Pension Funds	$ 341.6	$ 398.0	16.5%
Debt Service Fund	$ 501.8	$ 441.6	-12.0%
Enterprise Fund	$ 1,232.3	$ 1,366.5	10.9%
Total Resources	**$ 5,000.4**	**$ 5,551.6**	**11.0%**
Less Proceeds of Debt	$ 142.5	$ (45.1)	-131.6%
Less Internal Transfer	$ 255.8	$ (268.2)	-204.8%
NET APPROPRIATION	**$ 4,602.1**	**$ 5,238.3**	**13.8%**

Source: FY2002 City of Chicago Revenue Estimates, p. 1, and FY2006 City of Chicago Budget Overview and Revenue Estimates, p. 37.

Appropriations by Program Area

In the City of Chicago budget, City agencies are organized in nine functional program areas. These areas include:

- **Finance and Administration**, which includes departments that manage the City's finances, personnel, legal functions, and day-to-day operations. This category includes the Office of the Mayor and the Departments of Finance, Revenue, Law, and General Services;
- **Legislative and Elections**, which covers the costs necessary to hold Primary and General Elections as well as appropriations for the City Council and its various committees;
- **City Development**, which consists of the departments that handle community, economic, cultural, and infrastructure development in the City, such as the Department of Planning and Development;
- **Community Services**, which includes departments that provide services such as home heating assistance programs, assistance for the disabled, affordable housing and homeowner programs, and Chicago's Plan to End Homelessness;
- **Public Safety**, composed of the Departments of Police and Fire and the Office of Emergency Management and Communications;
- **Regulatory**, which covers the departments responsible for the day-to-day enforcement of City ordinances and includes the Department of Buildings, the Department of Construction and Permits, and the Office of the Inspector General;
- **Streets and Sanitation**, composed solely of the Department of Streets and Sanitation;
- **Infrastructure Services**, formerly called the Department of Transportation, which is responsible for the reconstruction of streets, sidewalks, and bridges, as well as the issuance of permits;
- **Public Service Enterprises**, composed of the Departments of Water Management and Aviation, which manage O'Hare and Midway Airports; and
- **General Financing Requirements**, which accounts for pension benefits, long term debt payments, and other cross-departmental expenses.

The largest increase in appropriations over the past fiscal year is projected to occur in the program area of Infrastructure Services. Appropriations in the area will increase by 82.7%, or approximately $200.3 million. The largest decrease is projected for General Financing Requirements, or 8.9%. Decreases in appropriations are also projected in the City Development and Regulatory categories, by 8.1% and 2.2% respectively.

CITY OF CHICAGO APPROPRIATIONS BY PROGRAM AREA: FY2005 & FY2006				
	2005 Approp.	2006 Rec	$ CHG	% CHG
FINANCE AND ADMINISTRATION	$ 416,646,439	$ 458,608,604	$ 41,962,165	10.1%
LEGISLATIVE AND ELECTIONS	$ 30,321,374	$ 36,029,905	$ 5,708,531	18.8%
CITY DEVELOPMENT	$ 247,520,908	$ 227,594,958	$ (19,925,950)	-8.1%
COMMUNITY SERVICES	$ 570,361,633	$ 583,103,563	$ 12,741,930	2.2%
PUBLIC SAFETY	$ 1,655,165,150	$ 1,908,005,328	$ 252,840,178	15.3%
REGULATORY	$ 99,595,968	$ 97,440,562	$ (2,155,406)	-2.2%
STREETS AND SANITATION	$ 349,807,698	$ 357,242,599	$ 7,434,901	2.1%
INFRASTRUCTURE SERVICES	$ 242,159,313	$ 442,468,223	$ 200,308,910	82.7%
PUBLIC SERVICES ENTERPRISES	$ 590,060,052	$ 657,073,041	$ 67,012,989	11.4%
GENERAL FINANCING REQ.	$ 2,294,593,749	$ 2,090,428,015	$ (204,165,734)	-8.9%
SUBTOTAL	**$ 6,496,232,284**	**$ 6,857,994,798**	**$ 361,762,514**	**5.6%**
DEDUCT:				
PROCEEDS AND REIMBURS.	$ 328,513,000	$ 313,294,888	$ (15,218,112)	-4.6%
GRANT FUNDS	$ 1,079,310,284	$ 1,306,428,736	$ 227,118,452	21.0%
GRAND TOTAL	**$ 5,088,409,000**	**$ 5,238,271,174**	**$ 149,862,174**	**2.9%**

Source: FY2005 City of Chicago Program & Budget Summay, p. ii, and FY2006 City of Chicago Program & Budget Summary, p. 1.

Appropriations by major program area between FY2002 and FY2006 are presented in the next exhibit. The largest increases by percentage occurred in Public Safety and in Finance and Administration, with increases of 24.1% and 13.0% respectively. Over the five-year period, there has been a 22.3% decrease in appropriations in the area of Infrastructure Services, from $569.5 million appropriated in FY2002 to the FY2006 recommendation of $442.4 million. Decreases are also projected in the City Development, Regulatory, and Streets and Sanitation categories by 10.0%, 2.6%, and 2.2% respectively.

CITY OF CHICAGO APPROPRIATIONS BY PROGRAM AREA: FY2002 & FY2006				
	2002 Approp.	2006 Rec	$ CHG	% CHG
FINANCE AND ADMINISTRATION	$ 405,837,999	$ 458,608,604	$ 52,770,605	13.0%
LEGISLATIVE AND ELECTIONS	$ 33,062,946	$ 36,029,905	$ 2,966,959	9.0%
CITY DEVELOPMENT	$ 252,984,456	$ 227,594,958	$ (25,389,498)	-10.0%
COMMUNITY SERVICES	$ 556,202,748	$ 583,103,563	$ 26,900,815	4.8%
PUBLIC SAFETY	$ 1,537,438,205	$ 1,908,005,328	$ 370,567,123	24.1%
REGULATORY	$ 100,030,035	$ 97,440,562	$ (2,589,473)	-2.6%
STREETS AND SANITATION	$ 365,188,807	$ 357,242,599	$ (7,946,208)	-2.2%
INFRASTRUCTURE SERVICES	$ 569,513,761	$ 442,468,223	$ (127,045,538)	-22.3%
PUBLIC SERVICES ENTERPRISES	$ 606,208,184	$ 657,073,041	$ 50,864,857	8.4%
GENERAL FINANCING REQ.	$ 1,876,999,951	$ 2,090,428,015	$ 213,428,064	11.4%
SUBTOTAL	**$ 6,303,467,092**	**$ 6,857,994,798**	**$ 554,527,706**	**8.8%**
DEDUCT:				
PROCEEDS AND REIMBURS.	$ 398,349,000	$ 313,294,888	$ (85,054,112)	-21.4%
GRANT FUNDS	$ 1,303,093,092	$ 1,306,428,736	$ 3,335,644	0.3%
GRAND TOTAL	**$ 4,602,025,000**	**$ 5,238,271,174**	**$ 636,246,174**	**13.8%**

Source: FY2002 City of Chicago Program & Budget Summary, p. 2, and FY2006 City of Chicago Program & Budget Summary, p. 1.

MILLENNIUM PARK FUNDING PROPOSALS

The City finally disclosed this year that Millennium Park costs approximately $7.4 million each year to operate. It also disclosed that until a stable long-term funding source is approved, interim financing for Millennium Park operations has been and will continue to be provided through borrowing. Since the Park opened in 2004, the City has obtained loans to pay for operations. Beginning in 2006, the City will tap into a $200 million line of credit to pay for operations of the Park.

Three different proposals have been floated regarding how to pay for Millennium Park operating costs: 1) a Conservancy District; 2) a Special Service Area; and 3) A plan that uses borrowing based on future earnings from the City’s current street furniture contract and ultimately revenues generated by that contract.

The Conservancy District

Originally, there had been discussion of establishing a non-profit Conservancy District to oversee Park operations, similar to the arrangement that manages operations of the Lincoln Park Zoo, Chicago Botanic Garden and Brookfield Zoo. However, the proposal was not acted upon.

The Special Service Area

Earlier this year, the City then floated the idea of establishing a Special Service Area (SSA) in the downtown area; the SSA would levy a special property tax to fund Park and other operations. This proposal was shelved due to opposition from downtown business groups including the Civic Federation. The Civic Federation **opposed an SSA** to fund operations at Millennium Park because the Park benefits all residents of the City, not just downtown property owners. As stated above, we believe that funds for operations should come from the City's Corporate Fund because operating the Park is a general operating expense of the City.

A New Funding Plan

On November 16, the City unveiled a new funding plan backed by escalating annual receipts from a previously awarded contract that has already installed more than 2,000 bus shelters, newsstands, newspaper vending racks and related street furniture items. JCDecaux, winner of the street furniture contract in 2002, is paying the City approximately $307 million through 2022, when the deal expires.[19]

Money generated by the street furniture contract to date, including $3.6 million in FY2006, will be used to fund City general operations. That amount will continue to be used for the operating budget, but any increases collected exceeding that amount will be used to pay for Park operating costs. Until sufficient revenue is generated from the street furniture contract to pay for the Park's estimated $7.4 million operating costs, money will continue to be borrowed from the previously approved $200 million line of credit. The line of credit was originally intended to smooth over cash flow problems resulting from late or uneven payments of State sales tax revenues to the City. The loans to Millennium Park won't be paid off until 2018; the interest costs on the loan will be $8.5 million (at a 4% interest rate).[20]

Annual payments from the street furniture contract are scheduled to increase to $9.7 million in 2008, to nearly $17 million in 2013 and then to nearly $29 million in 2018 when most of the debt will be retired. When the program ends, the City will have access to $86.7 million in "unprogrammed revenue surplus."[21]

Overall, the street furniture contract revenues from 2005 through 2022 are expected to total $287 million. Of that amount, $141 million will be used for Millennium Park operational expenses, $50 million will be directed to the Corporate Fund and $8.5 million will be used for tender note debt service.[22]

PERSONNEL: APPROPRIATIONS AND BUDGETED POSITIONS

Corporate Fund personal service appropriations are projected to increase by 5.4% in FY2006 from FY2005. The increase amounts to roughly $124.4 million.

Allocation	Total FY2005	Total FY2006	$ Change (FY2005 vs. FY2006)	% Change (FY2005 vs. FY2006)
Personal Services	$ 2,298,027,117	$ 2,422,426,484	$ 124,399,367	5.4%
Non-Personal Services	$ 491,410,883	$ 527,580,516	$ 36,169,633	7.4%

Source: FY2005 City of Chicago Budget Recommendations, p. v, and FY2006 City of Chicago Budget Recommendations, p. v.

[19] Gary Washburn. "City Finds Park Cash in its Bus Shelters," *Chicago Tribune*, November 17, 2005.

[20] Ibid.

[21] Information provided by Chicago Office of Budget and Management.

[22] Information provided by Chicago Office of Budget and Management.

Between FY2002 and FY2006, personal service appropriations in the Corporate Fund will rise by 17.5%, from approximately $2.1 billion to $2.4 billion. The percentage of Corporate Fund appropriations earmarked for personal services increased from 81.6% to 82.1% during the five-year period.

Allocation	Total FY2002	Total FY2006	$ Change (FY2002 vs. FY2006)	% Change (FY2002 vs. FY2006)
Personal Services	$2,061,429,165	$2,422,426,484	$360,997,319	17.5%
[% of Corporate Fund]	81.6%	82.1%		

Source: FY2002 City of Chicago Budget Recommendations, p. v, and FY2006 City of Chicago Budget Recommendations, p. v.

For FY2006, the City of Chicago recommends funding 40,312 full time equivalent (FTE) positions. This represents a slight increase of 0.1% from the level of FTE positions budgeted in 2004, or an increase of 50 FTE positions. There will be an increase of 170 FTES in the Public Safety program area, representing a 0.8% rise. Some program areas will experience reductions; the greatest reduction will occur in the area of Public Service Enterprises, which will see the elimination of 129 FTE positions. The totals for full-time equivalents were obtained from the FY2006 Program & Budget Summary – these totals are larger than those reported in the *City of Chicago FY2006 Budget Overview and Revenue Estimates* because they include positions funded by grants.

FULL-TIME EQUIVALENT POSITIONS BY AGENCY				
Agency	FY2005 Budgeted	FY2006 Recommended	# CHG FY2006 vs. FY2005	% CHG FY2006 vs. FY2005
FINANCE & ADMINISTRATION	3,156	3,197	41	1.3%
LEGISLATIVE & ELECTIONS	369	371	2	0.5%
CITY DEVELOPMENT	605	601	(4)	-0.7%
COMMUNITY SERVICES	3,951	3,935	(16)	-0.4%
PUBLIC SAFETY	22,470	22,640	170	0.8%
REGULATORY	1,003	1,014	11	1.1%
STREETS AND SANITATION	3,511	3,577	66	1.9%
TRANSPORTATION	953	862	(91)	-9.5%
PUBLIC SERVICE ENTERPRISES	4,244	4,115	(129)	-3.0%
Total	**40,262**	**40,312**	**50**	**0.1%**

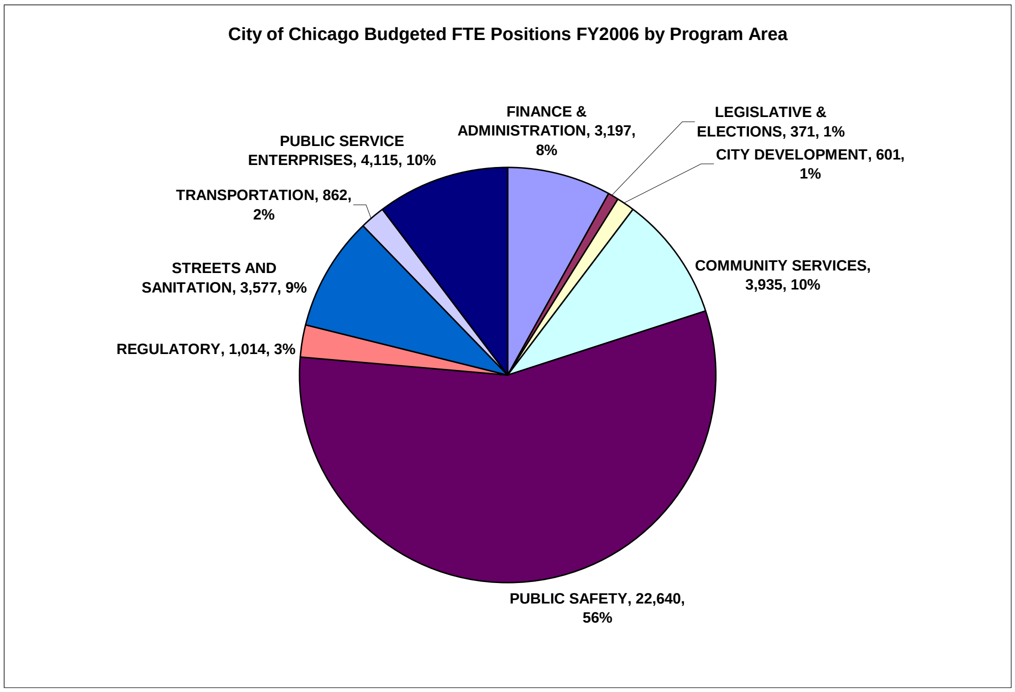
Source: FY2006 City of Chicago Program and Budget Summary.

From FY2002 to FY2006, there has been a reduction of 7.9% in the level of total full-time equivalent positions. The five-year period has seen a reduction of 3,447 FTE positions from 43,759 FTE positions budgeted in FY2002 to 40,312 recommended for FY2006. There has been a trend of reduction in all nine agencies except for the Regulatory agency, which has seen an additional 30 FTE positions, or a 3.0% increase, over the five-year period. The greatest unit decreases occurred in the agencies of Public Service Enterprises and Public Safety, which experienced reductions of 1,151 FTE positions and 607 FTE positions respectively. The greatest percentage declines for the years between FY2002 and FY2006 were in the agencies of Transportation and Public Service Enterprises, with decreases of 33.4% and 21.9% respectively.

FULL-TIME EQUIVALENT POSITIONS BY AGENCY				
Agency	FY2002 Budgeted	FY2006 Recommended	# CHG FY2006 vs. FY2002	% CHG FY2006 vs. FY2002
FINANCE & ADMINISTRATION	3,460	3,197	(263)	-7.6%
LEGISLATIVE & ELECTIONS	392	371	(21)	-5.4%
CITY DEVELOPMENT	747	601	(146)	-19.5%
COMMUNITY SERVICES	4,302	3,935	(367)	-8.5%
PUBLIC SAFETY	23,247	22,640	(607)	-2.6%
REGULATORY	984	1,014	30	3.0%
STREETS AND SANITATION	4,067	3,577	(490)	-12.0%
TRANSPORTATION	1,294	862	(432)	-33.4%
PUBLIC SERVICE ENTERPRISES	5,266	4,115	(1,151)	-21.9%
Total	**43,759**	**40,312**	**(3,447)**	**-7.9%**

Source: FY2003 City of Chicago Program and Budget Summary and FY2006 City of Chicago Program and Budget Summary.

Approximately 56.2% of all budgeted FTE positions in the proposed FY2006 budget are in the area of Public Safety. The next largest percentage occurs in the category of Public Service Enterprises at 10.2%.



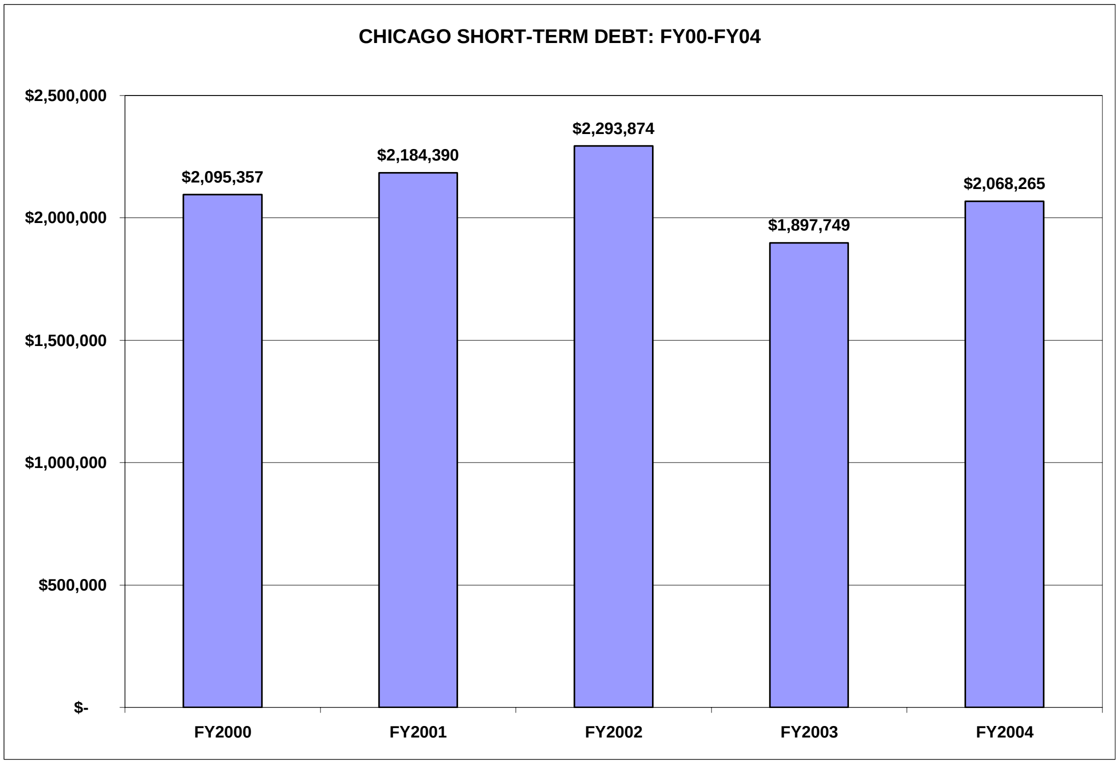
DEBT TRENDS

The Civic Federation employs several measures of debt for purposes of this analysis: short-term debt trends, long-term net direct debt and net direct per capita trends, debt service appropriation trends and bond ratings.

Short-Term Debt Trends

Short-term debt is a financial obligation that must be satisfied within one year. An increasing trend in short-term debt may be a warning sign of future financial difficulties. It is a measure of budgetary solvency, that is, a government's ability to generate enough revenue over the course of a normal budgetary period to meet its expenditures and prevent deficits. City of Chicago short-term debt includes all current liabilities except accrued salaries and wages, accrued payroll, compensated absences, accrued interest and accrued and other liabilities. For purposes of consistency over time, short-term debt is calculated for Governmental Activities, or activities in the four Governmental Funds.

In FY2004, short-term debt for the City of Chicago's Governmental Activities increased by 9.0%. This represented a $170 million rise from approximately $1.9 billion to $2.0 billion. This increase comes after a 17.3%, nearly $400 million decline between FY2003 and FY2002. Since FY2000, short-term debt has declined slightly, by 1.3%. Short term debt has remained at a stable level; if the overall amount of short-term debt increases in future years, the trend will bear watching.



Long-Term Direct Debt Trends

Long-term direct debt per capita is a measure of a government's ability to maintain its current financial policies. Direct debt is a government's tax-supported debt. Increases bear watching as a potential sign of increasing financial risk.

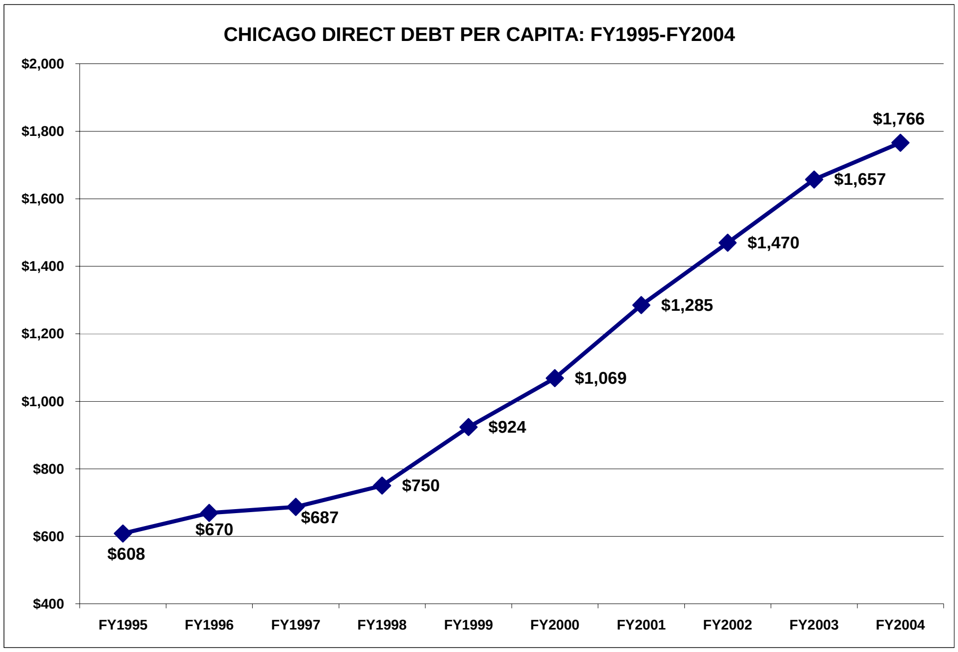
The exhibit below presents 10-year trend information for the total amount of City of Chicago net direct debt. During that time period, total net direct debt rose by 201.9% or $3.4 billion. This represents an increase from over $1.6 billion to approximately $5.1 billion. During the five-year period between FY2000 and FY2004, total direct debt grew by 65.2% or over $2.0 billion.

CITY OF CHICAGO DIRECT DEBT: FY1993-FY2003	
FY1995	$ 1,693,560,000
FY1996	$ 1,863,870,000
FY1997	$ 1,913,120,000
FY1998	$ 2,088,913,000
FY1999	$ 2,571,412,000
FY2000	$ 3,094,839,000
FY2001	$ 3,722,403,000
FY2002	$ 4,257,256,000
FY2003	$ 4,798,541,000
FY2004	$ 5,113,565,000
$ CHG	**$ 3,420,005,000**
% CHG	**201.9%**

Source: FY2004 Chicago Comprehensive Annual Financial Report, pp. 128-129.

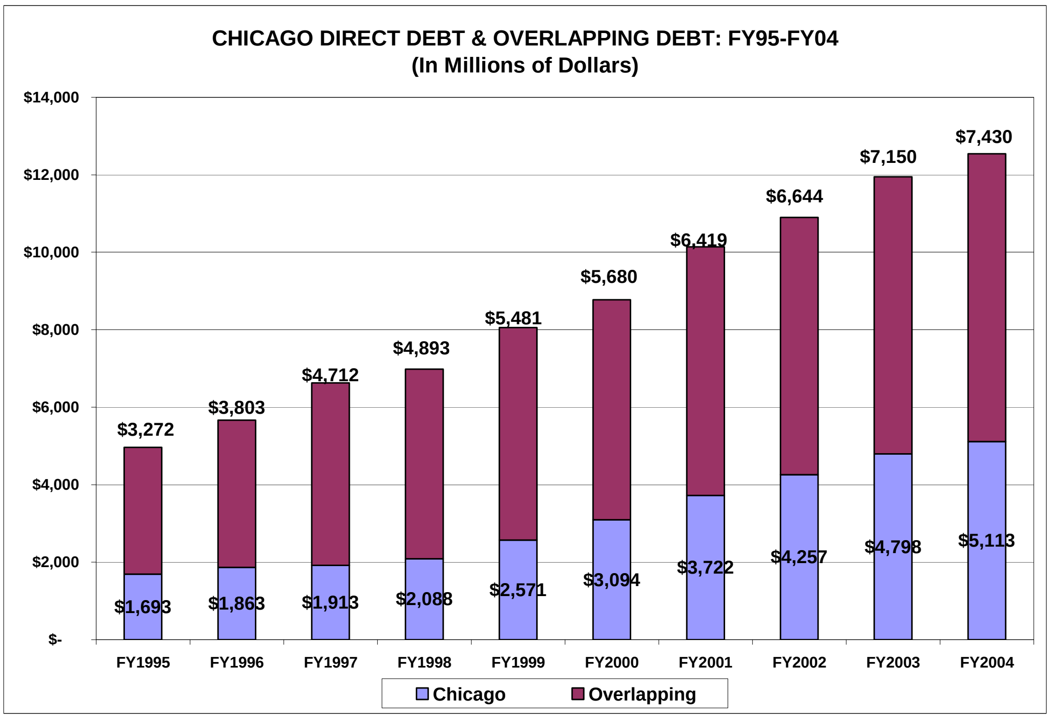
Long-Term Net Direct Debt Per Capita

A common ratio used by rating agencies and other public finance analysts to evaluate long-term debt trends is debt per capita. This ratio reflects the premise that the entire population of a jurisdiction benefits from infrastructure improvements. Between FY1995 and FY2004, net direct debt per capita rose by 190%, from $608 to $1,766. Over the 5-year period between FY2000 and FY2004, net direct debt per capita increased by 65%.



Overlapping Debt: Chicago vs. Other Governments

The next exhibit compares total City of Chicago net direct debt with overlapping net debt reported by seven other major Cook County governments with boundaries coterminous with the City of Chicago or located partially within its boundaries. These governments are: the Chicago Public Schools, Cook County, the Forest Preserve District of Cook County, the Metropolitan Water Reclamation District, the Chicago Park District, the City Colleges of Chicago and the School Finance Authority. Rating agencies and other financial analysts commonly monitor overlapping debt trends as an affordability indicator when governments consider debt issuance. Between FY1995 and FY2004, overlapping debt from other governments combined increased by 127% at the same time City of Chicago debt rose by 202%. Total debt from all eight major governments rose by 153%. Thus, the rate of increase in City of Chicago direct debt far outstripped increases for the other governments in the region.



Debt Service Appropriations

Debt service appropriations in FY2006 are projected to be 17% of total appropriations, or $877.5 million out of $5.2 billion. This figure is relatively high, as the rating agencies consider a debt burden high if this ratio is between 15% and 20%. However, the debt service to total appropriation ratio will decline slightly in FY2006 as debt service appropriations fall by approximately $22 million.

CITY OF CHICAGO DEBT SERVICE APPROPRIATIONS			
	Debt Service	Total Appropriation	Ratio
FY2002	$ 839,712,849	$ 4,602,025,000	18%
FY2003	$ 862,120,771	$ 4,718,653,481	18%
FY2004	$ 855,996,149	$ 4,818,892,000	18%
FY2005	$ 895,752,246	$ 5,088,409,000	18%
FY2006	$ 877,539,595	$ 5,238,271,174	17%

Sources: City Of Chicago Budget Recommendations.

Bond Ratings and Rating Agency Outlook

Chicago's financial outlook has improved since last year. In August 2005, the rating agencies upgraded the City's bond ratings, reflecting the improvement in the regional and the national economies and the City's efforts to boost its Corporate Fund balance. More specifically:

- Moody's raised its outlook to "positive" from "stable" and reaffirmed its previous A1 rating;
- Fitch raised rating to AA from AA-;
- Standard and Poor's raised its bond rating from AA- to A+.

The Moody's action is particularly significant because in August 2004, the rating agency changed its outlook on Chicago bonds from "neutral" to "negative." This meant that there was a strong possibility that the rating would be reduced in the next 12 to 18 months. Moody's subsequently upgraded its outlook to "neutral" as the City's financial situation improved in 2005.

PENSION TRENDS

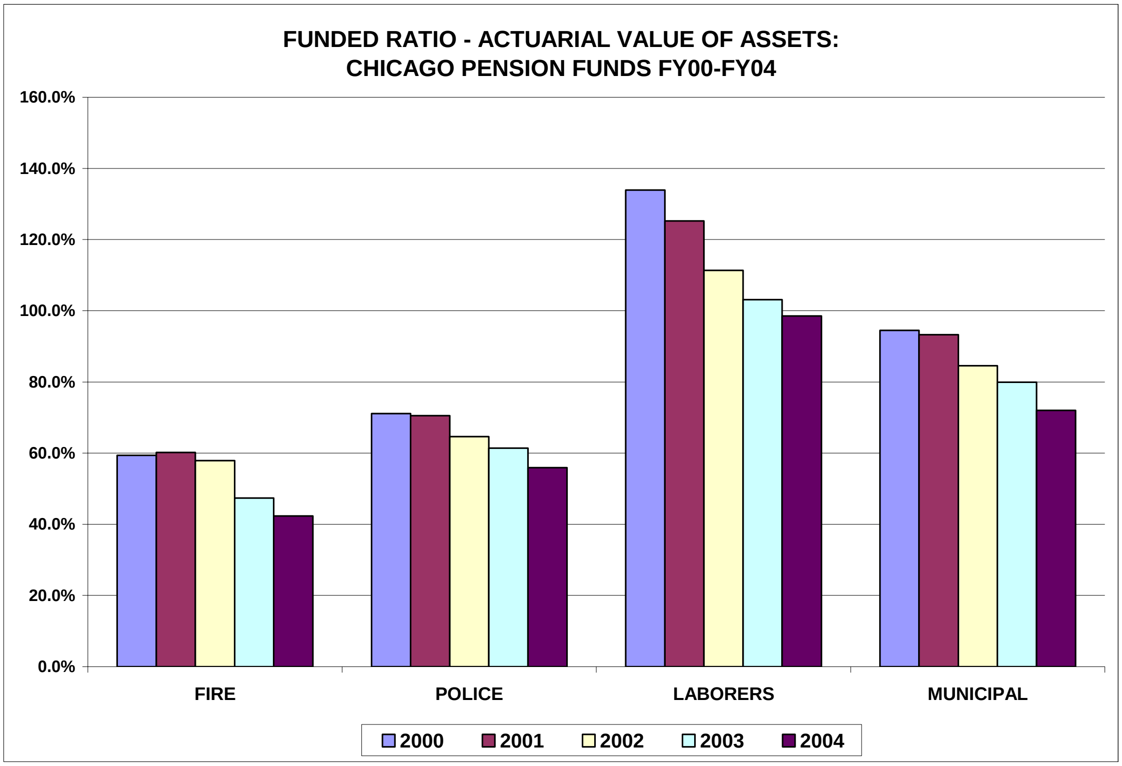
The City of Chicago maintains four employee pension funds: the Fire, Police, Municipal and Laborer's Funds. The Civic Federation used three measures to present a multi-year evaluation of the funds' fiscal health: funded ratios, the value of unfunded liabilities, and the investment rate of return.

Funded Ratios – Actuarial Value of Assets

The following exhibit shows funded ratios for each of the four pension funds. This ratio shows the percentage of pension liabilities covered by assets. The lower the percentage the more difficulty a government may have in meeting future obligations.

For the third year, the funded ratios of all four City pension funds dropped. The Fire Fund in FY2004 reported a funded ratio of only 42.3%, tumbling from 60.2% in FY2001. The Police Fund's funded ratio dropped from 61.4% in FY2003 to 55.9% a year later. The Police Fund has declined from a 71.1% funded ratio in FY2000. The continued declines in the funded ratios of the Fire and Police Pension Funds are a cause for concern. They are far below levels considered financially healthy. The Municipal Fund dropped to a funded ratio of 72.0%, declining sharply from a 94.5% ratio in FY2000.

The Laborers Funds also reported a decline for another year. However, it continues to remain healthy, reporting a funded ratio of 98.5%.

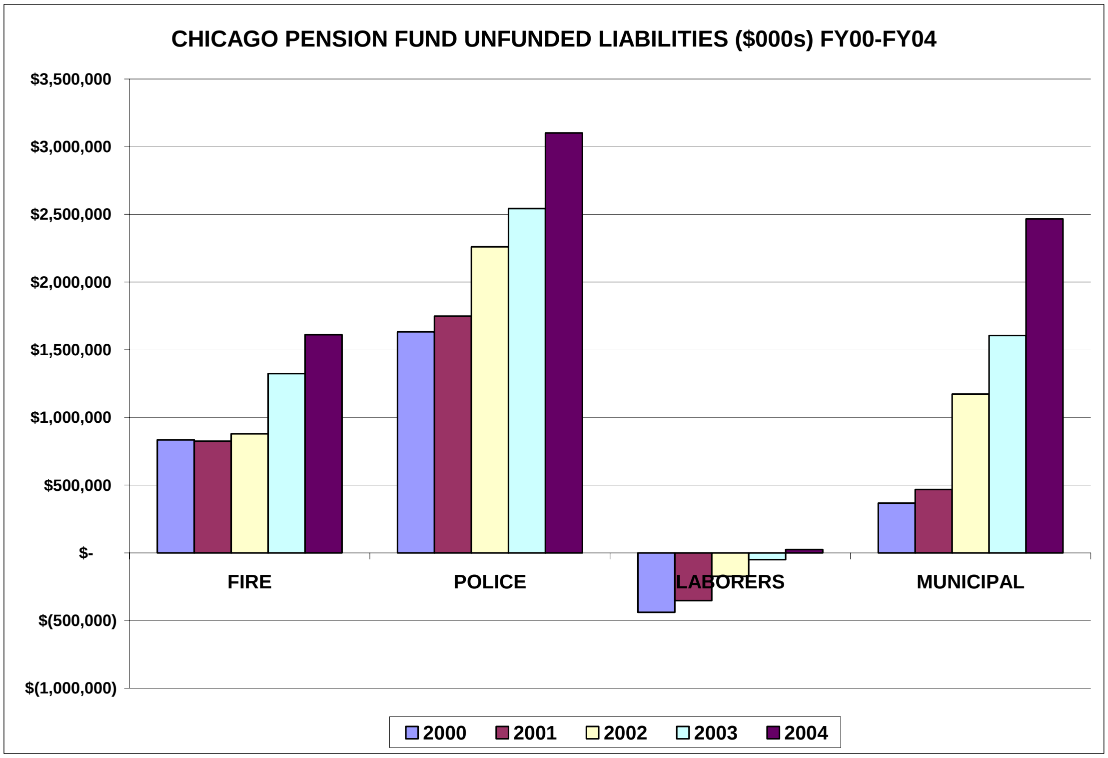


Unfunded Liabilities

Unfunded liabilities are the dollar value of liabilities not covered by assets. Between FY2000 and FY2004, unfunded liabilities for the City's pension funds increased by 200.9% or $4.8 billion, from $2.4 billion to $7.2 billion. These increases reflect the decreases in the funded ratios of all four City pension funds over the period analyzed. A summary of the 5-year changes in unfunded liabilities is shown below:

- Fire Pension Fund: 93.2% increase, from $833.8 million to $1.6 billion;
- Police Pension Fund : 90.0% increase, from $1.6 billion to $3.1 billion; and
- Municipal Pension Fund: 571.4% increase, from $367.2 million to $2.4 billion.

The Laborers Pension fund reported that liabilities exceeded assets by $24.6 million for the first time in many years in FY2004.



Investment Rates of Return

In FY2004, all four City pension funds reported positive, double digit rates of return for investments. However, the rates of return were less than those reported in FY2003. The average market rate of return for all City of Chicago pension funds was 11.5% in FY2004. The highest rate of return was reported by the Fire Fund, 13.3%. The Police Fund reported a 10.5% rate of return, the Laborers Fund 11.8% and the Municipal Fund 10.3%

CIVIC FEDERATION RECOMMENDATIONS

The Civic Federation has several recommendations regarding ways to improve the City of Chicago's financial management practices in both the short and long-term.

Charge Nonprofit Organizations for Water

The Civic Federation finds no sound policy reason to exempt nonprofits from paying their share of the costs of providing a limited resource such as water. This is particularly true of those entities like hospitals and universities that operate much more like a business than a storefront church. Paying customers are providing a large subsidy to those who do not pay. In addition to revenue foregone, wholesale exemptions for large water users encourage waste and over consumption and discourages conservation. Lake Michigan is not a limitless resource.

The City has floated the idea to charge large nonprofits such as hospitals and universities that generate water bills that would be valued over $50,000 per year on usage that exceeds the

$50,000 amount.[23] This is a good start and we support this measure. But, we urge the City to go further. All nonprofits should be metered and the dollar amount of the subsidy taxpayers are providing to nonprofits should be publicly disclosed on an annual basis.

Fund Millennium Park out of Current Operations, not Borrowing

The Civic Federation believes that Millennium Park operations should be paid for with Corporate Fund resources, not borrowing, because operating the Park is a general operating expense of the City. This would require cutting spending for other programs, something we feel in feasible in light of the City's use of a portion of Skyway proceeds to fund several programs including some that are recurring, such as the Condo Rebate program. In our view, borrowing funds to pay for current operations is not a sound fiscal policy. Therefore, we **oppose** the City's newest proposal to fund Park operations, which involves a borrowing program for many years to come.

Implement Pension Benefit Reform

Over the past year, the State of Illinois has adopted several key reforms designed to help the State control mounting employee retirement costs. The Civic Federation strongly supported these reforms and believes that the time has come to also apply some of these reforms to local government benefit plans, including those provided to City of Chicago employees. This year, we offer specific recommendations designed to improve the long-term financial health of the funds.

Establish a Two-Tiered System

Although the pension benefits for current public employees and retirees are guaranteed by the Illinois Constitution, benefit levels can be reduced for new employees. Reducing benefits for new employees would mean the creation of two-tiered benefit systems where existing and new employees receive different retirement benefits. Given the rising cost of pension benefits, this is a reasonable approach that the City should undertake.

Annuity Increases for New Hires Should be Fixed at the Lesser of 3% or CPI

Currently, Police and Fire pension fund beneficiaries receive 3% annual cost of living increases; this rate can and does exceed the rate of inflation. To control costs, annual annuity increases for new hires should be fixed at the projected Consumer Price Index or 3%, whichever is less.

Any Benefit Increases Should Require Contribution Increases

Many benefit enhancements are added to public pensions without accompanying contribution increases. Public Act 94-0004 requires that every new benefit increase made to one of the 5 state retirement systems must identify and provide for additional funding to fund the resulting annual accrued cost of the increase. It also requires that any benefit increase expire after 5 years, subject to renewal. We support extending this reasonable control on benefit increases to the City's pension funds.

[23] Fran Spielman, "Daley Wants to End Nonprofits' Free Water Deal," *Chicago Sun-Times*, November 3, 2005.

Require Employer Contributions to Relate to Funding Levels

City of Chicago government employer contributions are determined by multipliers per each fund that are not tied to the fund's funded ratio. For example, the Chicago Police Fund multiplier is 2.0 times the total employee contribution made two years prior. Employer contributions should be tied to funded ratios, such that additional contributions are required when the ratio drops below a given level.

Pursue Joint Purchasing of Health Insurance

The City of Chicago recently joined with six other local governments for the joint purchase of prescription drugs. We urge the City to take the next step and work with other major local governments to consolidate health insurance purchasing. The potential for substantial savings that can be achieved from an insurance pool will be extremely beneficial to Chicago's future financial situation. A recent Civic Federation study found that forming such an agreement consisting of the employees of seven major local governments including the City of Chicago could yield projected savings of $40.1 million for all the governments in the first year or $222 million over a 5-year period.[24]

Expand Alternative Service Delivery Efforts

The Civic Federation strongly urges the Mayor to move forward and continue to consider evaluate candidates for alternative service delivery (ASD). These ASD efforts can take the form of outsourcing or managed competition. A significant target for City privatization is garbage removal, given the number of viable, cost-effective private contractors available. Other potential candidates include customer service centers, fleet management, 311 calls (non-emergency services), building management, payroll processing and accounting. Once again, we caution that privatization is not a panacea for the City's financial problems. It can be beneficial only if there is a marketplace of competitive, qualified vendors and strong, sustained management oversight to ensure that the promised benefits are actually delivered. But it is an important tool that can be used to reduce costs and improve efficiency.

Continue to Improve Performance Measurement System

We noted last year that the *Program and Budget Summary* has greatly improved performance reporting by including service delivery targets for certain programs in each department, alongside four years of performance data. This permits City managers and citizens alike to assess success in meeting department service delivery goals. We urge the City to take the next step toward performance management by developing and implementing specific efficiency, effectiveness and service quality performance measures for City programs.

[24] The Civic Federation. *Feasibility Study of Consolidated Purchasing: Chicago Public Employers*. A Study Conducted by the Segal Company. February 23, 2001.

Implement a Formal Long-Term Financial Planning Process

The City of Chicago currently employs many of the techniques of a long-term financial planning process internally, including the projection of multi-year revenue trends and modeling of various revenue and expenditure options. However, the City does not develop a formal plan that is shared with and/or reviewed by key policymakers and stakeholders. The Civic Federation recommends that the City of Chicago develop and implement a formal long-term financial planning process to be reviewed not just internally, but to allow for input from the City Council and other key policy stakeholders, including the public.